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PRESIDENT'S FOREIGN INTELLIGENCE ADVISORY BOARD

Transcribed and Edited Remarks of Mr. Leo Cherne
During the PFIAB Meeting on 3-4 October 1974

PRECIS

Economic disorders now pose greatest dangers to national security.

Where the Board in December 1971 was indeed prophetic in perceiving that economic intelligence was vital, by last year prophecy was no longer required. I have now reached the conclusion, and it has been echoed elsewhere within the Executive Branch, that there is no other threat to this country's security which holds a candle to the potential now resident in the fields of economic disorder--and I would emphasize there are many fields. I make this claim without minimizing the variety of military and other political dangers which the United States faces. I have previously used the phrase "growing entropy," or chaos, to describe the situation; this has moved with such rapidity as to present this country with dangers of a magnitude which were quite unlike what they were a year ago.

Let me leap ahead for a moment to pinpoint the most immediate and visible source of this entropy. The transformation of the international payments system now taking place is so new and unfamiliar that wide differences exist as to its likely impact. Some experts, particularly members of the

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BACKGROUND

General and specific problems identified a year ago.

One year ago we were dealing with a succession of circumstances on which there had been significant--but still not adequate--improvements since the PFIAB report of 1971. Foremost among the gaps, it was clear that those concerned with the making of economic policy were not receiving warnings of impending crises.

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It was also more clear that for the remainder of this decade we would focus less on war and peace, than on economic problems, rivalries and even economic warfare.

Some of the specific problems I identified a year ago were:

1. That user-producer relationships were feeble;
2. That there was inadequate feedback to the community;
3. That disintegration of economic order was developing more quickly than the intelligence community could respond to it;
4. That new instruments, nongovernmental in nature, like multinational corporations and international banks were mushrooming at an enormous rate and were providing new problems in the field of economic intelligence;
5. That it was more and more difficult for American businesses to operate overseas and do so competitively with their foreign counterparts
6. That the foreign service officer was not being as helpful as he could be if adequately trained and motivated to provide economic intelligence.

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Some responses of the Intelligence Community in 1973.

Now let me make some observations about what has happened in this year. Under DCI Colby, there has been an energetic and constructive response. Although I have not reviewed everything which has been produced, I am nonetheless struck by the enormous volume and helpful character of much of the output. For example:

1. The International Petroleum Weekly is making a significant contribution. It is fundamental reporting, but reporting which would not exist but for the intelligence community.
2. The Economic Intelligence Weekly is relatively more analytic in nature but is still inadequate in this respect.
3. The Economic Intelligence Special Supplements which have been issued during the year--the special studies--have been of great importance. Here some of the very best thought and projective analysis has emerged.
4. The DCI has articulated the objectives for the intelligence community and the priorities in the economic area. While these priorities are not quite equal to the problems which have in fact occurred in 1974, this goes more to my earlier point regarding the dynamic character of today's economic situation rather than aiming criticism at the intelligence community.
5. A new economic statistical handbook has been issued in which the information is somewhat more useful than its predecessors. One very significant thing has been done--more of the content has been made unclassified, and in the economic area it has been my position that wherever possible, information be unclassified because otherwise it just simply cannot get to the very wide community of people who must use it and therefore would function ignorant of an important body of material.

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7. An action program has been prepared within the DCI's office to meet the promise of the Director that he would take the necessary steps to assure that economic intelligence needs are much more adequately met. It is a useful document.
8. A pass was made at the implications of trends in world population, food production and climate. This is totally projective and analytical and an excellent piece of research. It is not retrospective as, unfortunately, are so many other intelligence community reports.
9. A number of other useful studies were prepared with valuable help from the intelligence community, but under primary sponsorship of other Executive Branch entities. Two deal with technology transfer and critical imported commodities and are therefore subjects which this Board should urge the DCI to ensure the intelligence community keeps a continuous eye on.

I cannot report on whether there have been improvements in assistance to U.S. business operating overseas by means which do not violate the restraints which exist against providing classified intelligence materials. I was assured that this could be done by laundering the materials through the Commerce Department. I don't know how successful, if at all, this has been.

I am also unable to assess whether FSO reporting on economic affairs has improved in the past year--you will recall that we ascribed inadequacies more to attitudes than to any other impediment.

In summary, I would have to give very high marks to the responsiveness of the community under Bill Colby. But I also say they are running very hard to keep up with yesterday.

RETROSPECTION AND PROJECTIONS

Where were we a year ago and where are we now?

A year ago the dominant economic intelligence problem to which we addressed ourselves was oil. In addition, we were concerned about technology transfer, the behavior of multinational corporations, and the



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Next 6 Page(s) In Document Exempt

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